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Re: Regulatory Capital Rule: Revisions to the Community Bank Leverage Ratio Framework

Gulf Coast Bank & Trust Company appreciates the opportunity to comment on the recent NPR regarding the CBLR Framework. We support the proposal to lower the community bank leverage ratio (CBLR) requirement for qualifying community banks from 9% to 8%, consistent with the lower bound provided in section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (the “Act”). The NPR would also extend the length of time that qualifying community banks can remain in the CBLR framework while not meeting all of the qualifying criteria for the framework from two quarters to four quarters, subject to a limit of eight quarters in any five-year period.

Summary

The provision directed the Agencies to establish an applicable community bank leverage ratio between 8% and 10% for banks that want to opt in. Accordingly, a bank that meets or exceeds the established ratio would be treated as having met: *(i) The generally applicable leverage and risk-based capital requirements under the agencies’ capital rule; (ii) the capital ratio requirements in order to be considered well capitalized under the agencies’ prompt corrective action (PCA) framework (in the case of insured depository institutions); and (iii) any other applicable capital or leverage requirements*; and therefore, allowed to avoid the burdensome capital requirements under Basel III.

In February 2019, the Agencies proposed a 9% CBLR level, as well as a two-quarter grace period for a community bank that fails to meet any of the qualifying criteria after having previously met them. Despite stakeholder recommendations for a lower CBLR level and an increased grace period, the Agencies finalized the rule as proposed in November 2019.

The NPR proposes to revise the 2019 final rule by lowering the established 9% CBLR level to 8%, and increasing the out of compliance grace period from 2 quarters to 4 quarters.



CBLR Level

Gulf Coast Bank & Trust Company fully supports the proposed lowering of the CBLR level from 9% to 8%. The 9% CBLR level effectively operates to exclude many qualified institutions from opting into the CBLR framework, thereby negating Congress' goal of making available a simplified regulatory capital framework for the smallest and least complicated community banks. A lower CBLR level would incentivize more community banks to opt into the framework.

Increase in Grace Period

We fully support the NPR's increase in the grace period for out-of-compliance banks from 2 quarters to 4 quarters. This additional time would allow a bank to either effect a smooth transition out of the framework and into the more complex risk-based capital requirements under the generally applicable capital requirements, or "fix" any issues that would help bring the bank back into full compliance.

Mortgage Servicing is NOT Risky

Mortgage servicing is a very important line of business for many banks, particularly those banks that originate mortgages. In fact, mortgage loan origination and servicing are the primary businesses for many community banks. The servicing function – collecting payments, administering impound accounts for taxes and insurance, and the extremely important function of working with borrowers who encounter difficulties in meeting their obligations under the loan – is arguably the most important relationship a bank has with its customers.

Eliminate MSA Cap

The current Basel III regulatory framework, which caps the amount of MSAs a bank can include in CET1 capital at 25%, indirectly impacts CBLR banks – even though such banks were meant to be excluded from the burdensome, harsh MSA rules under Basel III rules applicable to MSRs. MSAs are not risky and should never have been subject to the punitive 250% risk weight and 25% CET1 capital cap under Basel III. The Agencies themselves stated in their 2016 Joint Report to Congress on MSAs supports the removal of the punitive MSA cap. The report's analysis of banking institution failures indicated that MSAs were not a significant factor for the majority of the banks that failed during the 2007 financial crisis.

Therefore, we strongly recommend that the Agencies use this opportunity to amend the CBLR framework to revise the CBLR calculation and eliminate the 25% MSA cap in CET1 capital. In effect, in calculating CBLR, community banks that opt into the framework would not be subject to the unjustified Basel III 25% cap on MSAs that can be included in CET1 capital.

In addition, we strongly urge the Agencies to increase the CET1 capital cap on MSAs for other banks to 50% and reduce the punitive 250% risk weight on MSAs to 100% for all banks.

Conclusion

Gulf Coast Bank & Trust Company appreciates the Agencies' goal to ensure that the CBLR framework provides a simple measure of capital adequacy for qualifying community banking organizations. These actions will help ensure that banking regulations are applied more consistently, appropriately calculated to their intended objectives, and that community banks continue to have the opportunity to thrive.